

# CONTROLLER JOHN CHIANG

## STATE OF CALIFORNIA

300 Capitol Mall  
Sacramento, CA 95814  
916.445.2636  
[www.controller.ca.gov](http://www.controller.ca.gov)

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CONTACT: HALLYE JORDAN  
916-445-2636

## Chiang Calls on Congress to Reform Minerals Management Service

*California Audit Funding Cuts Hurt Public Schools, Counties*

**SACRAMENTO** – State Controller John Chiang today urged Congress to support reforms that would allow California to audit and recover royalty payments for federal oil and gas leases on State land.

“The systematic undermining of California’s ability to collect oil and gas revenues owed our schools and counties needs fixing,” Chiang said. “I applaud Congress’s announcement of long overdue oversight of the Interior Department’s Minerals Management Service, and hope we can work for reforms that ensure California can collect what we’re owed.”

Oil companies split royalty payments between the federal and state governments for leases on public lands. The State Controller’s Office audits royalty revenues owed under federal leases in California. The State’s share of onshore oil and gas revenues goes to California’s K-12 education fund, and counties receive a share of geothermal and solid mineral revenues.

In 2006, the State Controller’s Office asked the Department of Interior for \$1.2 million to fund 10 auditors of oil leases. The Department of Interior cut funding to \$800,000 for eight auditors and plan on further reductions. California’s oil royalty auditors bring in an average of three times their costs.

In a letter to California’s Congressional delegation, Chiang asked for immediate assistance in restoring audit funds and for more opportunities for California’s participation.

“Unfortunately, the disarray at Minerals Management Service goes far beyond its decision to replace audits,” Chiang added. “MMS cannot calculate interest, track its activities, and is unwilling to collect back royalties that are owed. California’s schools shouldn’t pay the price for a bad system that’s benefited oil companies at the expense of our schools.”

A copy of Controller Chiang’s letter to the California Congressional delegation follows.

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**JOHN CHIANG**  
*California State Controller*

February 5, 2007

Honorable California Congressional Delegation Member  
Washington, D.C.

Re: Minerals Management Service

Dear California Congressional Delegation Member:

I wanted to applaud Congress's announcement of long overdue oversight of the Department of the Interior's Minerals Management Service (MMS) and urge you to support reforms that will assure credible audit coverage, full participation by California, and accurate reporting to the public.

As you know, the State Controller's Office (SCO) audits revenues owed under federal leases located within state boundaries. Congress authorized Interior to delegate audit authority to states at the recommendation of the Linowes Commission, which, in 1982, recognized that states, as well as tribes, have a more direct revenue interest and, in many cases, greater expertise about the operations of the minerals industry in their regions.

The "partnership" that Congress envisioned 25 years ago does not exist today. SCO's audit program is being steadily dismantled by MMS funding cuts and questionable compliance policies. Whatever MMS's goals and priorities are, they do not include ensuring that California's public schools and counties receive all that they are owed.

My first concern is a restoration of audit funds. MMS has unilaterally cut SCO's audit funding twice and we have been told to expect further reductions. Because audit funding is allocated by MMS at the end of California's, not the federal, fiscal year, your immediate assistance is needed.

Unfortunately, the disarray at MMS goes far beyond its decision to replace audits with simple checklist reviews. MMS cannot, among other things, calculate interest, cannot track its activities, cannot conduct automated verifications and is unwilling to collect back royalties that are owed. Less information is available for public evaluation. Press reports suggest that these systemic problems are accompanied by a lack of management independence, integrity and credibility.

These are not problems that, in SCO's view, MMS can be left to fix on its own or with the assistance of industry consultants. Oversight will show a need for more specific legislative direction of MMS, for limits on its administrative discretion, for more transparency in both MMS and lessee operations, and for more opportunities for state and tribal participation.

I would be delighted to share further details on SCO's concerns and potential reforms. If you need further information, please do not hesitate to contact Richard J. Chivaro, Chief Legal Counsel, at (916) 445-6854.

Sincerely,

JOHN CHIANG  
California State Controller

JC:RJC/jw